

# SUMMARY ANALYSIS OF AMENDED BILL

## Franchise Tax Board

Author: Nakano Analyst: Jeani Brent Bill Number: AB 465

Related Bills: See Prior Analysis Telephone: 845-3410 Amended Date: 06/14/1999

Attorney: Patrick Kusiak Sponsor:

**SUBJECT:** Research Expenses Credit/Increase Alternative Incremental Credit to 100% of the Federal Formula

DEPARTMENT AMENDMENTS ACCEPTED. Amendments reflect suggestions of previous analysis of bill as introduced/amended \_\_\_\_\_.

AMENDMENTS IMPACT REVENUE. A new revenue estimate is provided.

AMENDMENTS DID NOT RESOLVE THE DEPARTMENT'S CONCERNS stated in the previous analysis of bill as introduced/amended \_\_\_\_\_.

FURTHER AMENDMENTS NECESSARY.

DEPARTMENT POSITION CHANGED TO \_\_\_\_\_.

X REMAINDER OF PREVIOUS ANALYSIS OF BILL AS INTRODUCED February 16, 1999 AND AS AMENDED April 5, 1999, and April 12, 1999, STILL APPLY.

OTHER - See comments below.

### SUMMARY OF BILL

Under the Personal Income Tax Law (PITL) and the Bank and Corporation Tax Law (B&CTL), this bill would eliminate the provisions that make the state alternative incremental research expenses credit a reduced percentage of the federal credit amount, so that the federal percentages also would apply for state purposes.

### SUMMARY OF AMENDMENT

The June 14, 1999, amendments eliminated the provisions included in the May 28, 1999, version of the bill, thereby reinstating the bill's provisions as amended April 12, 1999.

The May 28, 1999, amendments changed the provisions that would have fully conformed to the federal alternative incremental credit amounts by including modifications that would have increased the current state alternative credit to 90% of the federal formula, instead of the existing 80%.

The department's analyses of the bill as introduced February 16, 1999, and as amended April 5, 1999, and April 12, 1999, still apply. The Revenue Estimate and Board position are included below.

### TAX REVENUE ESTIMATE

Revenue losses under the PITL and B&CTL are estimated to be as follows:

Effective Tax Years After December 31, 1998 Assumed Enactment After June 30, 1999 (in millions)			
1999-0	2000-1	2001-2	2002-3
(\$8)	(\$13)	(\$17)	(\$18)

### Board Position:

<input type="checkbox"/> S	<input type="checkbox"/> NA	<input type="checkbox"/> NP
<input type="checkbox"/> SA	<input type="checkbox"/> O	<input type="checkbox"/> NAR
<input checked="" type="checkbox"/> N	<input type="checkbox"/> OUA	<input type="checkbox"/> PENDING

Department/Legislative Director

Date

Johnnie Lou Rosas

6/23/1999

This analysis does not consider the possible changes in employment, personal income, or gross state product that could result from this measure.

#### TAX REVENUE DISCUSSION

The above revenue impact was estimated as follows. First, the revenue loss from the alternative incremental credit under the existing B&CTL was estimated for 1994 using FTB B&CTL samples as well as other corporate financial data. Next, the revenue loss from the alternative incremental credit under the proposed higher credit rates provided in this bill was estimated using the same data. The differences between these two amounts are the B&CTL revenue impact of this bill. The revenue losses were extrapolated using reported aggregate R&D credit claimed by California corporations from 1994 to 1997 and Department of Finance projected annual growth rates of corporate profits. Finally, the revenue impact under the PITL was assumed to be equal to 1% of the B&CTL impact and was added to the B&CTL impact.

#### BOARD POSITION

Neutral.

At its March 23, 1999, meeting, the Franchise Tax Board voted 2-0 to take a neutral position on this bill as introduced February 16, 1999, which contained the same provisions as the current version of the bill.

